Fund Your IRA, Cut Your Taxes

Now that the tax return filing deadline has been extended, there's even more time to make a 2020 IRA contribution and lower your tax bill.

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As you get ready to tackle your 2020 tax return, make sure you haven't overlooked one of the best ways to cut your tax bill and secure your future — funding a traditional IRA. (There is no upfront tax break for funding a Roth IRA.)

Technically, you can make an IRA contribution for the 2020 tax year up until the time you file your tax return, which **now isn't due until May 17, 2021**. But why wait? If you have some extra income – say, from a **stimulus check** – go ahead and deposit it into an IRA account now before you forget. You'll also give the money a little more time to grow, which you'll appreciate when you retire.

And what about those tax savings? Well, depending on your income, you may be able to deduct your IRA contribution on your 2020 return. To contribute to a traditional IRA, you or your spouse must have earned income from a job. But, otherwise, **you may be able to deduct contributions** to an IRA even if you or your spouse are covered by another retirement plan at work. Plus, starting last year, seniors age 70½ and older with earned income can contribute to a traditional IRA, too.

Here's some more good news: The IRA deduction is an "above the line" adjustment to income, meaning you don't have to itemize your deductions to claim it. It will reduce your adjusted gross income (AGI) dollar-for-dollar, lowering your tax bill. And your lower AGI could make you eligible for other tax breaks, which are tied to income limits.

Who Qualifies

If you're single and don't participate in a retirement plan at work, you can make a tax-deductible IRA contribution for 2020 of up to $6,000 ($7,000 if you're 50 or older) regardless of your income. If you're married and your spouse is covered by a workplace-based retirement plan but you're not, you can deduct your full IRA contribution as long as your joint AGI doesn't top $196,000 for 2020. You can take a partial tax deduction if your combined income is between $196,000 and $206,000.

But even if you do participate in a retirement plan at work, you can still deduct up to the maximum $6,000 IRA contribution ($7,000 if you're 50 or older) if you're single and your income is $65,000 or less ($104,000 if married filing jointly). And you can deduct some of your IRA contribution if you're single and your income is between $65,000 and $75,000, or if you're married and your income is between $104,000 and $124,000.

Spouses with little or no earned income for 2020 can also make an IRA contribution of up to $6,000 ($7,000 if 50 or older) as long as their spouse has sufficient earned income to cover both contributions. The contribution is tax-deductible as long as your household income doesn't exceed the limits for married couples filing jointly.

Double Tax Break

Some low- and moderate-income taxpayers get an extra break for contributing to an IRA or other retirement account.

In addition to the usual IRA deduction, you may qualify for a Retirement Savers tax credit of up to $1,000 for contributions to an IRA or other retirement tax plan. (A tax credit, which reduces your tax bill dollar-for-dollar, is more valuable than a deduction, which merely reduces the amount of income that is taxed.)

The actual amount of the credit depends on your income. It ranges from 10% to 50% of the first $2,000 contributed to an IRA or other retirement account. To be eligible, your 2020 income can't exceed $32,500 if you're single; $48,750 if you're the head of a household with dependents; or $65,000 if you're married filing jointly. The lower your income, the higher the credit. But you can't claim the Retirement Savers credit if you're under 18, a student, or can be claimed as a dependent on someone else's tax return.

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